

Message Text

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ACTION STR-04

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INT-05 L-03 LAB-04 NSAE-00 NSC-05 PA-01 AID-05

CIEP-01 SS-15 ITC-01 TRSE-00 USIA-06 PRS-01 SP-02

OMB-01 /092 W

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R 271840Z FEB 76

FM USDEL MTN GENEVA

TO SECSTATE WASHDC 1194

C O N F I D E N T I A L SECTION 1 OF 3 MTN GENEVA 1473

PASS STR ELECTRONICALLY

ACTION STR

E.O. 11652: N/A

TAGS: MTN, ETRD, GATT

SUBJECT: TARIFFS GROUP MEETING MARCH 23: INITIAL COMMENTS

OTHER MTN DELS ARE AWAITING EXPECTANTLY THE TABLING OF A U.S. TARIFF CUTTING FORMULA ON MARCH 23, U.S. DEL WISHES TO EMPHASIZE TWO CONCERNS IN THESE INITIAL COMMENTS: FIRST, THAT THE USG DECISION ON A FORMULA TAKE INTO ACCOUNT THE TACTICAL ASPECTS OF THE NEGOTIATIONS AND LEAVE ADEQUATE FLEXIBILITY FOR THE ARDUOUS NEGOTIATIONS THAT WILL ENSUE, AND SECOND, THAT OTHER ELEMENTS OF A TARIFF NEGOTIATING PLAN BE JOINED WITH THE TARIFF CUTTING FORMULA SO IT CAN BE PRESENTED AS A COHERENT AND CONVINCING PACKAGE THAT WILL BE VIEWED BY OTHER DELS AS THE BASIS FOR BEGINNING SERIOUS TARIFF NEGOTIATIONS. HOW, FROM OUR POINT OF VIEW, WE CAN BEST DEAL WITH THESE CONCERNS IS DISCUSSES IN THE FOLLOWING PARAGRAPHS.

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I. FORMULA STRATEGY

1. THE U.S. FORMULA TABLED ON MARCH 23 SHOULD NOT BE THE PRECISE FORMULA ON WHICH WE HOPE TO GAIN A CONSENSUS, BUT IT SHOULD INDICATE THE DIRECTION THAT THE U.S. IS PREPARED TO GO. IN ORDER TO BE CREDIBLE, IT MUST CONTAIN ELEMENTS OBVIOUSLY ACCEPTABLE TO U.S. DOMESTIC INTERESTS, AND BE PERCEIVED AS CONSISTENT WITH OUR PREVIOUSLY STATED OBJECTIVES OF (1) FURTHER TARIFF LIBERALIZATION, (2) SUBSTANTIAL DUTY REDUCTIONS, AND (3) SUBSTANTIALLY EQUIVALENT COMPETITIVE OPPORTUNITIES (SECO). MOREOVER, THE FORMULA MUST HAVE ENOUGH INTERNATIONALLY-ACCEPTABLE ELEMENTS IN IT SO AS TO MINIMIZE THE RISK OF PREMATURE REJECTION. THUS, WE SUGGEST A FORMULA PROPOSAL INCORPORATING BOTH A LINEAR AND A HARMONIZATION ELEMENT. FOR TACTICAL REASONS, WW URGE THE FORMULA, AS INITIALLY TABLED, CONTAIN LARGER LINEAR AND SMALLER HARMONIZATION ELEMENTS THAN WE WOULD ULTIMATELY ACCEPT. FOR EXAMPLE, IF DESIRED FORMULA IS SOMETHING LIKE $Y = 35 + X$, WE SHOULD TABLE FORMULA CALLING FOR $Y = 50 + .25X$ OR $Y = 50 + .5X$, ETC. OBVIOUSLY, U.S. FORMUAL SHOULD STAY WITHIN TRADE ACT AUTHORITY OR SPECIFY THE MEANS TO ADAPT THE FORMULA TO TITLE I LIMITATIONS.

2. NEGOTIATING FLEXIBILITY WOULD ALSO BE ENHANCED BY A GENERAL STATEMENT EARLY-ON, AS TO THE TARGET LEVEL OF CUTS EXPECTED TO BE ACHIEVED. THE TARGET DEPTH OF CUT RESULTING FROM THE COMBINED ELEMENTS SHOULD BE SET HIGH SO THAT AFTER EROSION FOR EXCEPTIONS (IN THE KR THIS EROSION AMOUNTED TO ABOUT 15 PERCENT), THE AVERAGE CUT WILL STILL BE SIGNIFICANT. ONE SUGGESTION IS TO ANNOUNCE AS A GENERAL GOAL SUBSTANTIAL TARIFF REDUCTIONS BEYOND THE KR HYPOTHESIS.

II. TACTICAL CONSIDERATIONS

1. BESIDES THE STRATEGIC CONCEPTS, THE U.S. DEL FEELS IT IMPORTANT TO BE ABLE TO ADDRESS A NUMBER OF OTHER ASPECTS OF THE TARIFF NEGOTIATING PLAN. IN SOME CASES, THESE CONSIDERATIONS DICTATE A MORE COMPREHENSIVE

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TREATMENT OF POINTS MENTIONED ABOVE. OTHERS ARE BASED ON THE NEED TO SHOW THAT IN DEVELOPING OUR FORMULA THE USG CONSIDERED PRINCIPLES ENUMERATED AT PREVIOUS MEETINGS OF THE TARIFFS GROUP. IN SHORT, WE WOULD LIKE TO ACCOMPANY THE U.S. FORMULA WITH AS MUCH DATA AND INFORMATION AS POSSIBLE SO AS TO PROMPT SERIOUS INTERNATIONAL CONSIDERATION OF OUR FORMULA. IN ADDITION TO SUPPORTING U.S. TARIFF FORMULA WITH U.S. THINKING ON

OTHER ELEMENTS OF TARIFF NEGOTIATING PLAN, THE IMPACT OF U.S. PRESENTATION COULD BE MAXIMIZED IF U.S. DEL ADDRESSES DIRECTLY ASPECTS OF TARIFF FORMULA THAT ARE OF INTEREST TO OTHER DELS SUCH AS HARMONIZATION, TARIFF ESCALATION, EFFECT ON LDCS, TARIFF FLOOR, SIMPLICITY OF FORMULA, APPLICABILITY TO AGRICULTURE AND EFFECT ON OVERALL LIBERALIZATION. WHILE U.S. DEL WILL NEED FLEXIBILITY IN DECIDING WHICH POINTS TO STRESS IN PRESENTING AND DEFENDING U.S. PROPOSAL BOTH IN TARIFFS GROUP AND IN BILATERAL DISCUSSIONS, WE WOULD APPRECIATE USG GUIDANCE ON EACH OF THE FOLLOWING TOPICS.

A. SECO. IN THE OCTOBER MEETING WE NOTED THAT MAJRO U.S. OBJECTIVE WAS TO PROVIDE "SUBSTANTIALLY EQUIVALENT COMPETITIVE OPPORTUNITIES." WE CANNOT AVOID TALKING ABOUT SECO AT THE NEXT TARIFFS GROUP MEETING. TO AVOID DISCUSSING SECO IN OUR INTRODUCTORY STATEMENT WOULD LOOK LIKE THE U.S. WAS RETREATING FROM A PREVIOUSLY STATED (AND MANDATORY) TRADE OBJECTIVE. U.S. DEL WOULD PROPOSE THAT WE DRAW ON SECO PAPER PREPARED COMMERCE. WE WOULD POINT OUT THAT THE SECO CONCEPT IS NOT AIMED AT NEGATING THE COMPARATIVE ADVANTAGE COUNTRIES HAVE BY REASON OF ACCESS TO RAW MATERIALS, ECONOMIES OF SCALE, SUPERIOR TECHNOLOGY, BETTER MANAGEMENT TECHNIQUES, MORE SKILLFUL WORKERS, OR LARGER LABOR FORCES. IN OTHER WORDS, THE SECO CONCEPT DOES NOT IMPLY "EQUALIZING COSTS OF PRODUCTION" OR OTHER SO-CALLED "SCIENTIFIC TARIFF" CALCULATIONS. RATHER SECO IMPLIES, BROADLY SPEAKING, FAIR MARKET ACCESS AND INTERNATIONAL RECIPROCAL TREATMENT. THIS WILL BE ACHIEVED THROUGH A FORMULA LEADING TO SUBSTANTIAL DUTY REDUCTIONS AND TARIFF HARMONIZATION, UNDERTAKEN WITH THE REALIZATION THAT OTHER ELEMENTS OF SECO WILL NEED TO BE ACHIEVED IN SECTORS AND OTHER MTN

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GROUPS, PARTICULARLY THE NTM GROUPS.

B. TARGET REDUCTION. THE TARGET CUT CONCEPT IMPLIES CONSIDERABLE FLEXIBILITY, BUT CONVERSELY, COULD WEAKEN THE FORMULA "DISCIPLINE." WOULD THE U.S., FOR EXAMPLE, BE WILLING TO ACCEPT DEEPER-THAN-FORMULA CUTS TO OFFSET LESS-THAN-FORMULA CUTS SO LONG AS AN OVERALL TARGET DEPTH-OF-CUT WERE ACHIEVED? THE CANADIANS HAVE ALREADY RAISED THIS QUESTION AND ARE LIKELY TO DO SO AGAIN IN A DISCUSSION OF U.S. FORMULA. WE RECOMMEND THAT U.S. OPPOSE THIS CONCEPT OF BALANCING LESS THAN FORMULA CUTS. U.S. DEL SHOULD STATE, HOWEVER, THAT TARIFFS GROUP TARGET SHOULD BE BEYOND THE KR GOAL AND THAT THE U.S. REMAINS PREPARED, TO THE EXTENT THAT U.S. FORMULA DOES NOT USE FULL U.S. TARIFF CUTTING AUTHORITY, TO CONSIDER DEEPER THAN FORMUAL CUTS ON ITEMS OF PARTICULAR TRADE

INTEREST TO ITS TRADING PARTNERS (IN RETURN FOR
RECIPROCAL CONCESSIONS). IN THIS CONNECTION WE VIEW
SECTOR NEGOTIATIONS AS A COMPLEMENTARY TECHNIQUE.
U.S. ABILITY TO MAKE DEEPER THAN FORMULA CUTS MAY BE

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INT-05 L-03 LAB-04 NSAE-00 NSC-05 PA-01 AID-05

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OMB-01 /092 W

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R 271840Z FEB 76

FM USDEL MTN GENEVA

TO SECSTATE WASHDC 1200

C O N F I D E N T I A L SECTION 2 OF 3 MTN GENEVA 1473

PARTICULARLY USEFUL IN ALLAYING CANADIAN CONCERN OVER
LOW DUTIES AND IN RESPONDING TO DEMANDS FOR SPECIAL
TREATMENT BY DEVELOPING COUNTRIES.

C. FLOOR. EXCEPT FOR CANADA'S PROPOSAL, MOST TARIFF
CUTTING HYPOTHESES TABLED FOR DISCUSSION SO FAR INCLUDE
AN IMPLICIT FLOOR. EC AND JAPAN HAVE FAVORED SELF-
FLOORING FORMULAE AT ABOUT THE 5 PERCENT LEVEL. THE
CANADIANS, ON THE OTHER HAND, HAVE VIGOROUSLY OPPOSED
ANY FLOOR. U.S. FORMULA WITH SUBSTANTIAL LINEAR ELEMENT
SHOULD MAKE OUR FORMULA MORE ATTRACTIVE TO CANADIANS
THAN OTHER TARIFF HYPOTHESES. U.S. DEL SHOULD POINT OUT
THAT U.S. FORMULA REDUCES LOW DUTIES SUBSTANTIALLY
MORE THAN OTHER TARIFF CUTTING PROPOSALS AND THAT IT HAS
WITH A LOW FLOOR (E.G., AT 1 PERCENT IF Y EQUALS 50
PLUS .25X IS FORMULA TABLED BY U.S.), OR NO FLOOR
DEPENDING UPON U.S. USE OF ITS ROUNDING AUTHORITY.
WE BELIEVE U.S. SHOULD LEAVE OPEN THE QUESTION OF
LOW FLOOR IN U.S. FORMULA AT THIS POINT, ACKNOWLEDGING

THAT THE ISSUE EXISTS WITHOUT SETTING OUT A U.S. POSITION
ON IT. THIS SHOULD INCREASE OUR BARGAINING LEVERAGE
WITH OTHER LIKELY FORMULA COUNTRIES, PARTICULARLY THE
EC WHICH WANTS A FLOOR TO PROTECT CXT. U.S. DEL
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WILL CONTINUE, IN BILATERAL DISCUSSIONS, TO STRESS THE
IMPORTANT ADVANTAGES OF CHOOSING A FORMULA THAT ENHANCES
THE PROSPECTS FOR CANADIAN PARTICIPATION.

D. HARMONIZATION. U.S. FORMULA PRESUMABLY WILL
CONTAIN A TARIFF HARMONIZATION ELEMENT. U.S. TALKING
POINTS SHOULD RECOGNIZE DESIRABILITY OF REDUCING
UNREASONABLY AND INEQUITABLY HIGH RATES IN ALL
PROSPECTIVE FORMULA COUNTRIES, AND HOW OUR FORMULA WILL
ATTACK "TARIFF PEAKS."

E. REDUCING RATE DIFFERENCES. THE BASIC FORMULA
THAT WE PROPOSE WILL GO FAR TO REDUCE ABSOLUTE DIFFERENCES
IN TARIFFS. BUT AS A SUPPLEMENT TO OUR BASIC FORMULA
APPROACH, WE MAY WISH TO PROPOSE IN GENERAL TERMS
THE NOTION OF FURTHER REDUCING TARIFF DIFFERENCES
(I.E., DISPARITIES). ADDING A DISPARITIES ELEMENT TO A
TARIFF FORMULA SEEMS TO EXPLICIT; BUT WE MAY WANT TO
ADVOCATE GENERAL APPROACH THAT APPEARS TO CORRESPOND
MORE CLOSELY TO THE PRIVATE SECTOR VIEW OF HARMONIZATION.
THUS, WE MIGHT ADDITIONALLY SUGGEST THAT "EFFORTS BE
CONSIDERED AIMED AT REDUCING OR ELIMINATING PARTICULARLY
GREAT DIFFERENCES AMONG TARIFF RATES ON EQUIVALENT
ITEMS." THIS WOULD RAISE THE ISSUES AND ELICIT
FOREIGN RESPONSES WITHOUT COMMITTING US.

F. TARIFF ESCALATION. THE NEED TO REDUCE TARIFF
ESCALATION CONTINUES TO ATTRACT LDC SUPPORT. IT IS
ALSO OF PRIME INTEREST TO CANADA. IN ORDER TO BUILD
SUPPORT FOR OUR FORMULA, U.S. DEL SHOULD SHOW
SUPERIORITY OF OUR FORMULA IN MEETING DEMANDS TO
REDUCE TARIFF ESCALATION. U.S. DEL STUDY OF TARIFF
ESCALATION CAN BE USED FOR THIS PURPOSE. THIS STUDY
SHOWS THAT, EXCEPT FOR CANADIAN TARIFFS. THIS STUDY
SHOWS THAT, EXCEPT FOR CANADIAN TARIFFS, A Y EQUALS X
FORMULA WITH THREE ITERATIONS DOES NOT SIGNIFICANTLY
REDUCE ESCALATION WHEREAS A STRAIGHT LINEAR (Y EQUALS 60)
OR A FORMULA CONTAINING LINEAR AND HARMONIZATION ELEMENTS
ARE BOTH MORE EFFECTIVE IN REDUCING ESCALATION.

G. GSP-MFN. IN FACE OF LDC DEMANDS FOR MAINTENANCE
OF PREFERENCE MARGINS, U.S. DEL SHOULD CONTINUE TO
EMPHASIZE THAT MFN REDUCTIONS ARE BETTER ENGINE FOR
DEVELOPMENT THAN RELIANCE ON GSP. U.S. DEL WOULD
EXPECT TO EMPHASIZE THE BROADER COVERAGE OF MFN
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REDUCTIONS, THEIR PERMANENCE, RIGHTS UNDER MFN CONCES-
SIONS, AND -- AT LEAST PRIVATELY -- THE ADVANTAGES OF
MFN CUTS IN ERODING INTRA-DC PREFERENCES SUCH AS EC-EFTA.

III. ADDITIONAL ELEMENTS OF TARIFF NEGOTIATION PLAN

1. U.S. WILL PRESUMABLY NOT BE IN A POSITION TO MAKE
DEFINITIVE PROPOSALS AT MARCH 23 MEETING ON OTHER
ELEMENTS OF THE TARIFF NEGOTIATING PLAN SUCH AS
PROCEDURES FOR DEALING WITH EXCEPTIONS, STAGING, AND
SO FORTH. OTHER DELEGATIONS, HOWEVER, ARE LIKELY TO
RAISE SEVERAL OF THESE ISSUES. U.S. PRESENTATION OF
OUR TARIFF CUTTING PROPOSAL AND OPPORTUNITIES FOR
OBTAINING SUPPORT FOR U.S. PROPOSAL COULD BE ENHANCED
IF WE CAN ANTICIPATE THESE ISSUES AND MOVE BEYOND
STATEMENTS MADE ON SOME OF THESE ISSUES AT PREVIOUS
TARIFFS GROUP MEETINGS.

A. PROCEDURES FOR EXCEPTIONS. ALTHOUGH EC AND
JAPAN HAVE AVOIDED DISCUSSION OF EXCEPTIONS IN PREVIOUS
TARIFFS GROUP MEETINGS ON GROUNDS THAT EXCEPTIONS
PROCEDURES COULD NOT BE DISCUSSED IN ABSENCE OF
AGREED FORMULA, WE EXPECT THAT SUBJECT WILL BE RAISED
IN MARCH MEETING BY THE CANADIANS, IF BY NO ONE ELSE.
EC HAS INDICATED TO US INFORMALLY THAT IT PREFERS
FLEXIBLE EXCEPTIONS PROCEDURES AND DOES NOT BELIEVE A
CONFRONTATION AND JUSTIFICATION (C & J) PROCEDURE TO
BE USEFUL. JAPAN ALSO WANTS FLEXIBLE PROCEDURES BUT
SEES VALUE IN A C&J EXERCISE IF ONLY TO BE ABLE TO USE
IT TO COUNTER DOMESTIC PROTECTIONIST SENTIMENTS.
CANADIANS, ON THE OTHER HAND, RECOGNIZING THE IMPACT
THAT EXCEPTIONS COULD HAVE ON CANADA'S EXPORTS
ARE MOST ADAMANT IN DISCUSSING EXCEPTIONS. THEY HAVE
SUGGESTED THAT EXCEPTIONS COULD BE LIMITED IN VALUE
(I.E. X PERCENT OF TRADE) AND/OR BY PERCENTAGE OF
TOTAL TARIFF LINES. THE CANADIANS HAVE TOLD US THAT
THEY WILL BE UNABLE TO ACCEPT A TARIFF CUTTING FORMULA
UNTIL THEY HAD SOME ASSURANCES THAT THEIR EXPORT
INTERESTS IN THE U.S. MARKET WILL NOT BE ENDANGERED
BY EXCEPTIONS. THE LDCS SPEAK OF "TRANSPARENCY" OF
EXCEPTIONS PROCEDURES, DEMAND ACCESS TO EXCEPTIONS
LISTS AND WANT SPECIAL PROCEDURES FOR KEEPING ITEMS OF
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LDC EXPORT INTEREST OFF DC EXCEPTIONS LISTS. SOME
ALTERNATIVE WAYS OF DEALING WITH THIS ISSUE AT NEXT
MEETING ARE:

- (1) U.S. INDICATES PRELIMINARY THINKING ON

ALTERNATIVE PROCEDURES THAT MIGHT BE FOLLOWED FOR
TABLING EXCEPTIONS, INCLUDING USEFULNESS OF C&J
EXERCISE, PERCENTAGE CUT-OFF, TRANSPARENCY, ETC.
(WE ASSUME USG NOT ADEQUATELY PREPARED TO DISCUSS
THAT ISSUE AT THIS TIME.);

(2) U.S. AVOIDS DISCUSSION OF PROCEDURES BY
REQUESTING THAT GATT SECRETARIAT DO DETAILED STUDY OF
POSSIBLE PROCEDURES;

(3) U.S. PROPOSES SEPARATE MEETING OF TARIFFS
GROUP (OR ESTABLISHMENT OF SUBGROUP) TO MEET IN MAY OR
JUNE FOR PURPOSE OF DISCUSSING EXCEPTIONS PROCEDURES;

(4) U.S. STATES THAT IT IS TOO EARLY TO DISCUSS
PROCEDURES FOR EXCEPTIONS UNTIL AGREEMENT IN PRINCIPLE
ON A TARIFF CUTTING FORMULA BUT U.S. COULD ACCEPT, IN
PRINCIPLE, THE CONCEPT THAT EXCEPTIONS SHOULD BE LIMITED.

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ITC-01 TRSE-00 USIA-06 PRS-01 SP-02 OMB-01 FEA-01

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R 271840Z FEB 76

FM USDEL MTN GENEVA

TO SECSTATE WASHDC 1201

C O N F I D E N T I A L SECTION 3 OF 3 MTN GENEVA 1473

IN VIEW OF COMPLEX LINKAGES BETWEEN EXCEPTIONS AND
OTHER ELEMENTS OF THE NEGOTIATIONS (I.E., SECTORS,
NTMS, SAFEGUARDS), U.S. DEL RECOMMENDS THAT U.S.
FOLLOW ALTERNATIVE 4 WITH POSSIBILITY OF FALLBACK TO
ALTERNATIVE 2 OR 3 IF GROUP SUPPORT DEVELOPS FOR
DISCUSSION OF EXCEPTIONS PROCEDURES.

B. STAGING. STAGING PROVISIONS IN THE TRADE ACT

ALLOW MORE FLEXIBILITY THAN EXISTED IN THE KR.
APPROPRIATE USE OF THIS STAGING AUTHORITY COULD ADD
SUBSTANTIALLY TO THE OVERALL LEVEL OF LIBERALIZATION
EXPECTED TO BE ACHIEVED IN THE CURRENT NEGOTIATIONS
ON TARIFFS. LONGER STAGING AND/OR DIFFERENTIAL STAGING
BY INDUSTRY OR COUNTRY COULD LEAD TO GREATER FORMULA
PARTICIPATION, DEEPER CUTS AND FEWER EXCEPTIONS.
U.S. DEL WOULD NOT WANT TO SIGNAL A PREMATURE ACCEPTANCE
OF STAGING DEROGATIONS BUT BELIEVES WE COULD SIGNAL
POSSIBLE WILLINGNESS TO DISCUSS FLEXIBLE STAGING
SIMPLY BY EXPLAINING LIMITS OF U.S. STAGING AUTHORITY.

C. PETROLEUM. THERE APPEARS TO BE A GENERAL
PRESUMPTION AMONG THE LIKELY FORMULA PARTICIPANTS
THAT PETROLEUM -- AT LEAST CRUDE PETROLEUM -- SHOULD NOT
BE CONSIDERED FOR TARIFF REDUCTIONS. SINCE PETROLEUM
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IS A MANDATORY U.S. EXCEPTION AND SINCE IT ACCOUNTS
FOR NEARLY 25 PERCENT OF U.S. TOTAL IMPORTS, IT WOULD
BE USEFUL IF, AT SOME POINT, WE COULD OBTAIN AGREEMENT
TO "EXCLUDE" PETROLEUM FROM THE MTN TARIFF NEGOTIA-
TIONS THEREBY ELIMINATING THE NEED TO NOTIFY IT AS AN
EXCEPTION OR TO INCLUDE IT IN CALCULATIONS OF
RECIPROCITY. (IT SHOULD BE NOTED THAT EC AND JAPANESE
HAVE SAME PROBLEMS IN EVEN GREATER MAGNITUDE AND SHOULD
THEREFORE BE SUPPORTIVE.) FOR THE TIME BEING, WE
SHOULD NOT RAISE THE QUESTION IN THE TARIFFS GROUP
MEETING BUT CONTINUE TO ASSUME, IF SUBJECT IS RAISED
IN BILATERAL DISCUSSIONS, THAT PETROLEUM IS OUTSIDE
THE TARIFF NEGOTIATIONS. AT THE SAME TIME, WE RECOMMEND
USG STUDY WAYS IN WHICH PETROLEUM CAN BE EXCLUDED FROM
THE NEGOTIATIONS WITHOUT COST TO THE U.S.

D. FOB-CIF. IN LAST TARIFFS GROUP MEETING U.S.
DEL INDICATED THAT WE EXPECTED SOME FORM OF ADJUSTMENT
TO BE MADE FOR THE DIFFERENT VALUATION SYSTEMS IN
EFFECT. THERE WAS ONE LDC INTERVENTION TO THE EFFECT
THAT AN FOB SYSTEM WAS MORE FAVORABLE TO LDCS THAN A
CIF SYSTEM. FURTHER ANALYSIS HAS INDICATED THAT ANY
ADJUSTMENT TO BE FACTORED INTO THE TARIFF FORMULA FOR
APPLICATION ON INDIVIDUAL TARIFF LINES WOULD NECES-
SITATE TARIFF CONCORDANCES BETWEEN CIF AND FOB
COUNTRIES. MOREOVER, NO OTHER FOB COUNTRY HAS
DETAILED STATISTICS THAT WOULD ALLOW CALCULATION OF
CIF-FOB FACTOR AT THE TARIFF LINE LEVEL. WE BELIEVE
AN EVENTUAL APPROACH FOR THE U.S. MIGHT BE TO
ACHIEVE ACCEPTANCE OF PROPOSITION THAT THE TARIFF
FORMULA WOULD BE APPLIED TO EXISTING TARIFFS, BUT THAT
THE U.S. COULD CALCULATE TRADE VALUE OF RECIPROCITY
OFFERED BY U.S. ON THE BASIS OF TRADE VALUES
ADJUSTED UPWARD TO A CIF BASIS. U.S. DEL RECOMMENDS

THAT U.S. CONTINUE TO PRESS FOR FOB-CIF
ADJUSTMENT FACTOR IN THE FORMULA AND TO DISCUSS WAYS IN
WHICH SUCH A FACTOR MIGHT BE APPLIED WITHOUT COMMITTING
TO ANY PARTICULAR METHOD OF ADJUSTMENT.

E. SPECIAL AND DIFFERENTIAL TREATMENT. LDCS HAVE
ARGUED THAT SPECIAL PROCEDURES FOR LDCS SHOULD BE
ADOPTED AT SAME TIME THAT FORMULA COUNTRIES ADOPT A
TARIFF FORMULA AND OTHER ELEMENTS OF A TARIFF NEGOTIATING
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PLAN. NOW THAT U.S. FORMULA PREFERENCE IS ON THE TABLE,
WE CAN EXPECT LDCS TO AGAIN PRESS FOR THIS SPECIAL
TREATMENT. U.S. DEL SHOULD CONTINUE TO ADVOCATE U.S.
PROPOSAL AND TO EXPLAIN HOW IT TAKES INTO CONSIDERATION
LDC INTERESTS. IN ADDITION TO DEMONSTRATING BENEFICIAL
EFFECT OF U.S. FORMULA ON LDC TRADE, U.S. DEL SHOULD
ELABORATE ON HOW SPECIAL PROCEDURES FOR LDCS PROPOSED
BY U.S. AT LAST TARIFFS GROUP MEETING (BILATERAL CROSS
NOTIFICATION OF ITEMS OF INTEREST) TIES IN WITH U.S.
FORMULA CONCEPT. IN THIS REGARD, WE CAN AGAIN POINT
OUT THAT U.S. VISUALIZES BILATERAL NOTIFICATIONS AS
FORMING BASIS FOR POTENTIAL DIFFERENTIAL TREATMENT
IN LIMITING EXCPETIONS ON ITEMS OF INTEREST TO LDCS,
FOR SPECIAL STAGING PROVISIONS FOR PARTICULAR ITEMS OF
LDC INTEREST, AND FOR DEEPER THAN FORMULA REDUCTIONS
AS WELL AS FOR WAYS BY WHICH LDCS CAN CONTRIBUTE
TO NEGOTIATIONS.

F. GATT STUDY OF FORMULA PROPOSALS. THE TARIFFS
GROUP HAS AGREED, WITH THE U.S. RESERVING, THAT THE
GATT SECRETARIAT, PRIOR TO THE FINAL SELECTION OF A
FORMULA, PREPARE A STUDY ANALYZING THE IMPLICATIONS FOR
THE TRADE OF DEVELOPING COUNTRIES OF VARIOUS TARIFF
CUTTING FORMULAE. THE GROUP ENTRUSTED THE SECRETARIAT
TO PREPARE A SYSTEM FOR RAPID EVALUATION OF THE EFFECTS
OF TARIFF CUTTING FORMULAE ON LDC EXPORTS TO DC MARKETS.
THE SCOPE OF THIS STUDY AND THE PARAMETERS OF THE
EVALUATION SYSTEM HAVE NOT YET BEEN DETAILED. THE
U.S. SHOULD TRY TO INFLUENCE THE SCOPE OF THE STUDY
IN ORDER TO AVOID A STUDY THAT COULD PREJUDICE RESULTS
AGAINST THE U.S. PROPOSED FORMULA.

G. BASE RATES/BASE DATE. BILATERAL DISCUSSIONS
HAVE INDICATED THAT THE QUESTION OF BASE RATES/BASE DATE
ON UNBOUND ITEMS IS A SUBJECT OF CONTENTION MAINLY
WITH THE JAPANESE AMONG THE LIKELY FORMULA PARTICIPANTS
(AUSTRALIA SEEMS TO BE AN INCREASINGLY UNLIKELY
FORMULA CANDIDATE). ALTHOUGH THE U.S. WILL NEED TO
COME TO AN ACCOMMODATION WITH THE JAPANESE ON THIS
ISSUE AT SOME POINT, WE RECOMMEND WE MAINTAIN CURRENT
POSTURE IN TARIFFS GROUP. AT SAME TIME, U.S. DEL
SHOULD HAVE SUFFICIENT FLEXIBILITY TO USE BASE DATE

DIFFERENCES WITH JAPAN AS LEVERAGE IN BILATERAL DISCUS-
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SIONS ON THE FORMULA SUBSEQUENT TO THE MARCH MEETING.

H. AGRICULTURE. THE U.S. AND THE EC HAVE SO FAR
AVOIDED A CONFRONTATION OVER THE QUESTION OF THE
APPLICABILITY OF THE TARIFF FORMULA TO AGRICULTURAL
PRODUCTS. WE SHOULD CONTINUE TO FOLLOW THE SAME
PROCEDURE USED IN PAST TARIFFS GROUP MEETINGS UNTIL
SUCH AN APPROACH THREATENS FURTHER PROGRESS; THAT IS,
THE U.S. CONTINUES TO STATE THAT THE TARIFF FORMULA
COVERS ALL TRADE; THE EC STATES THAT IT COVERS ONLY
INDUSTRY, AND WE CONTINUE TO NEGOTIATE ON A FORMULA,
LEAVING THE DAY OF RECKONING UNTIL LATER. WE WILL
WANT TO MAKE EXPLICIT THE COVERAGE OF U.S. FORMULA
(I.E., BTN 1-99) WITHOUT UNNECESSARILY FORCING A
CONFRONTATION WITH THE EC ON THIS ISSUE AT THIS EARLY
POINT IN THE NEGOTIATIONS. AT THE SAME TIME, HOWEVER,
WE SHOULD BEGIN TO EXPLORE VARIOUS ALTERNATIVES SHOULD
THIS ISSUE THREATEN AN IMPASSE. WE RECOMMEND THAT
U.S. STUDY IMPLICATIONS OF TWO EVENTUAL FALLBACK
POSITIONS OUTLINED BELOW:

(1) WE STATE THAT TARIFF FORMULA APPLIES TO ALL
TARIFF ITEMS EXCEPT THOSE WITH VARIABLE LEVIES AND
POSSIBLY THOSE WITH BOTH A FIXED AND VARIABLE ELEMENT
(ALTHOUGH WE SHOULD EXAMINE THIS LATTER CASE CAREFULLY).

(2) WE PROPOSE THAT FORMULA BE REFERRED TO GROUP
AGRICULTURE FOR STUDY OF ITS APPLICABILITY TO AGRICULTURE.
(WE WOULD NEED TO GUARD AGAINST GROUP AGRICULTURE
ASSUMING EXCLUSIVITY OF TREATMENT WITH RESPECT TO
AGRICULTURAL PRODUCTS.) WALKER

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Message Attributes

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Disposition Authority: saccheem
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
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Review Release Date: n/a
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Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: TARIFFS GROUP MEETING MARCH 23: INITIAL COMMENTS OTHER MTN DELS ARE AWAITING EXPECTANTLY THE TABLING
TAGS: ETRD, US, GATT, MTN
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006